Sub-Saharan Africa: External financing risks may emerge if there are virus-related set backs

CHRIS J FINDLAY
ECONOMIC RESEARCH OFFICE | LONDON
T: +44-(0)20-7577-1712
E: christopher.findlay@uk.mufg.jp

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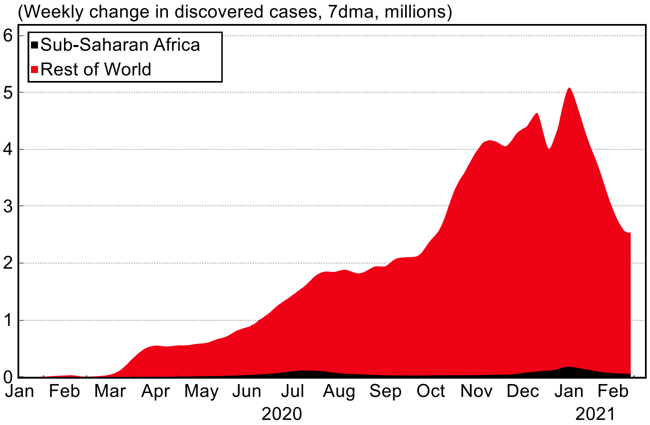
The Sub-Saharan economy has suffered from the pandemic

There have been a relatively low number of discovered COVID-19 cases in Sub-Saharan Africa (SSA) but the pandemic has certainly had a clear effect on the economy. After decades of steady growth for the region as a whole, real GDP fell by 3.0% in 2020. On a per capita basis, output is likely to have fallen back to 2012 levels.

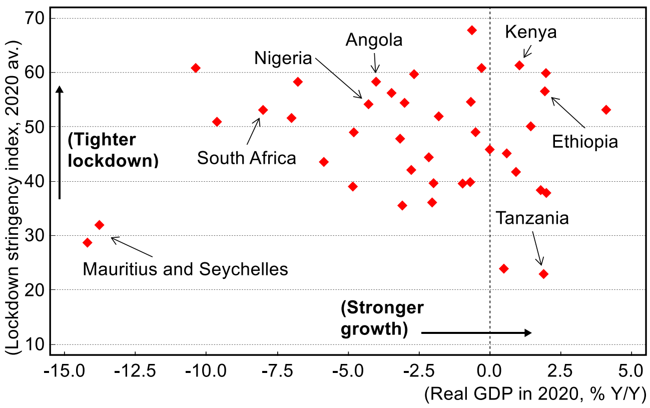
COVID-19 restrictions weighed heavily on the South African economy, but the relationship between GDP and lockdown stringency was not as clear-cut for the rest of the region as it has been in Europe and other parts of the world. Instead, it was the effect on external demand that was most significant. The largest economic contractions were experienced by countries that rely on oil exports (e.g. Nigeria and Angola) and tourist-dependent economies such as Mauritius and Seychelles. Meanwhile, some more diversified economies, such as Kenya and Ethiopia, actually expanded over 2020.

Discovered COVID-19 Cases
(Weekly change in discovered cases, 7dma, millions)



Source: WHO, MUFG Bank Economic Research Office

Lockdowns vs growth in Sub-Saharan Africa



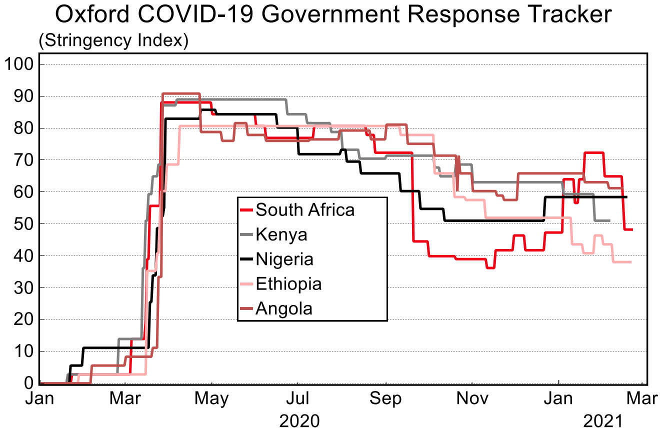
Source: IMF, Oxford COVID-19 Government Response Tracker, MUFG Bank Economic Research Office

Vaccination struggles are likely to continue

For the majority of SSA economies that did contract over 2020 (32 out of 45 countries, according to the IMF), the pace of the recovery may hinge on the availability and distribution of vaccines. This will be especially relevant for more developed countries with older populations such as South Africa and those that have experienced the most strain on their healthcare services. There has been a slow start however. Only a handful of countries including South Africa and Zimbabwe have launched vaccination programmes. Without local production of the vaccine, SSA is reliant on external supplies which have proven hard to come by in the face of demand from richer countries.

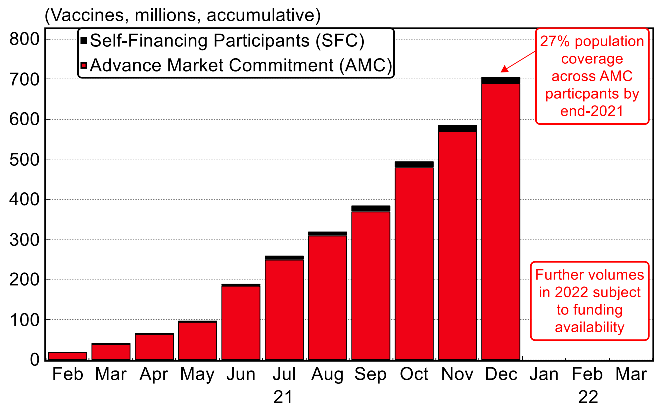
These initial supply issues are likely to fade through the year. The African Union (AU) has been taking a collective approach to vaccine procurement. So far, its African Vaccine Acquisition Task Team (AVATT), has managed to secure 300 million doses of Russia's Sputnik V vaccine and 670 million doses of other vaccines. Africa will have access to a further 600 million doses from the WHO-backed COVAX scheme. Overall this takes the total number of doses secured to 1.57 billion, which may be enough to fully vaccinate around 60% of the population. In terms of timing, the expansion of supply and distribution networks is likely to lag behind more developed regions. The COVAX scheme is targeting 600 million doses to SSA by the end November 2021, equivalent to full vaccines for around 20% of the population, with the AU targeting an overall rate of 35% by the end of the year. On current projections, these rates should be achievable, but the threshold for general population immunity may not be achieved until H2 2022 at the earliest.

Oxford COVID-19 Government Response Tracker



Source: Oxford COVID-19 Government Response Tracker, MUFG Bank Economic Research Office

African Union COVAX Scheme



Note:From June onwards, just over 70% of monthly totals are secured
Source: CEPI, Gavi, WHO, Macrobond, MUFG Bank Economic Research Office

As a result of slow progress, some countries have decided to speed up the process by undertaking their own programmes but in turn have faced the same difficulties. South Africa has already had issues with the apparently-minimal level of protection from its unilaterally-sourced AstraZeneca vaccines against the new variant of COVID-19 that emerged in the country last year. The South African government has subsequently pivoted to the single-dose Johnson & Johnson vaccine instead (the first country to do so outside of a clinical trial) and offered its stock of AstraZeneca vaccines to the AU. The potential for these sorts of individual factors – especially the potential for foreign domestic politics to disrupt supplies and concerns over the efficacy of vaccines against any new variants – to trip up the wider process is likely to remain high throughout 2021.

The scope for fiscal policy to support the recovery is limited

Access to vaccinations is likely to be a key focus over the medium-term. Further ahead, the deterioration in public finances during the pandemic may become increasingly relevant.

Expensive crisis response policies and foreign currency denominated debt that has mechanistically risen as domestic currencies have depreciated means that total government debt has risen to levels not seen since the early-2000s when many governments took part in debt relief. Indeed, the IMF provided USD 16 billion of emergency assistance to 22 SSA countries in 2020. Highlighting the extent of the pressures in 2020, the IMF noted that some countries in the region such as Democratic Republic of the Congo, Ghana and Mauritius have also resorted to tapping central banks to fund their crisis spending. This sort of last-resort measure highlights the extreme fiscal pressures that many governments have faced during the pandemic.

The region faces additional external financing needs of USD 890 billion through 2023, with a financing gap of USD 290 billion, according to the IMF. If SSA does not gain enough foreign financing to cover its debt roll-overs then this could be to the detriment of broader macroeconomic stability and could hit real GDP growth. There is certainly a risk that the post-pandemic economic recovery could be delayed if governments have to trim growth-friendly measures such as public investment plans to ease pressures from fiscal deficits. External support could be more important than ever for SSA over the coming years.

Nevertheless, much of the outlook depends on the trajectory of COVID-19 cases. Given limited access to vaccines, lockdown restrictions are likely to remain in place for a while yet. The net result of the uncertain trajectory of COVID-19 cases, limited fiscal policy space, and rising external finance issues is that it is likely that the economic recovery in SSA will be softer when compared with other regions. IMF regional forecasts show SSA lagging, particularly when compared with 'Emerging and Developing Asia', which has been able to introduce far stronger policy measures. The IMF forecasts real GDP growth of 3.1% this year after a 3.0% fall in 2020. The real GDP forecast for 2021 is lower than other regions partly due to the fact that SSA has more limited fiscal space to help sustain stronger real GDP growth. If capital inflows remain weak or if SSA does not gain enough foreign financing then there could be further issues down the line for macroeconomic stability.

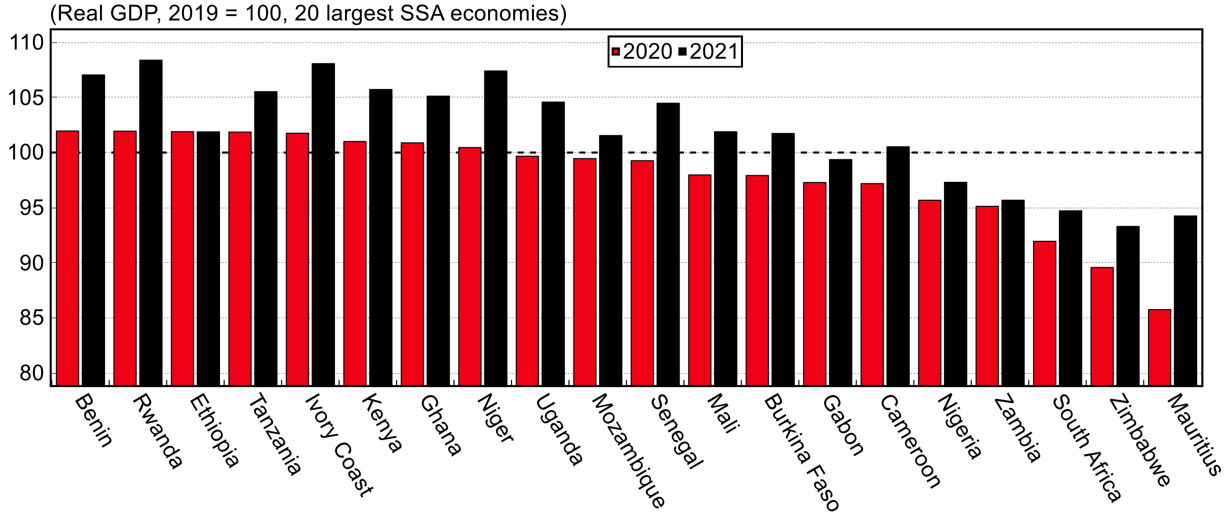
Outlook – A fragmented recovery, with risks remaining to the downside

The near-term outlook will continue to hinge on the spread of COVID-19 and the degree of lockdown restrictions imposed by governments. We do note that the region as a whole has managed to deal with the health crisis relatively well so far. Despite high numbers in South Africa (50% of cases and deaths, mostly due to more infectious strain), much of the wider region has been fast to act and has benefitted from strong compliance with lockdown measures, a fairly young population and warm drier climate. Public mobility indicators also suggested a quick recovery in activity after the second wave of the virus at the end of last year. This may mean that longer-term economic scarring may be limited, even in the most-affected countries, once lockdown measures are lifted. However, the struggle to secure vaccines for SSA could mean that some degree of restrictions must remain in place for longer, which would drag on the recovery for the region as a whole. The IMF's 3.1% forecast for growth in SSA this year would see it lag behind other regions such as Emerging and Developing Asia.

On a national basis, the recovery may be quite fragmented across SSA. Countries such as Rwanda, Kenya and Ethiopia are set to experience fairly strong rates of real GDP growth in 2021 after managing to escape the worst effects of the COVID-19 crisis. Mauritius, a tourism dependent economy, may see the strongest real GDP growth in the region if vaccination programmes allow some international travel to return. However, we continue to note that rebound does not mean recovery. Despite the possibility of rapid growth in 2021, the Mauritian economy is likely to remain well-below its pre-pandemic level. This also applies to Nigeria and South Africa, the two largest economies in the region, which are both likely to remain short of their 2019 levels. This will contribute to that relatively slow recovery for the region as a whole.

In terms of the balance of risk, SSA, like the rest of the world, will face the threat from more deadly or transmissible variants of COVID-19. But we also worry about the region's limited fiscal space, especially if any virus-related set-backs materialise.

Sub-Saharan Africa likely to face a fragmented post-pandemic recovery
(Real GDP, 2019 = 100, 20 largest SSA economies)



Source: IMF, MUFG Bank Economic Research Office